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IHS Markit Indonesia Manufacturing PMI™

Indonesia PMI hits record high

Key findings

Sharpest increases in output and new orders in decade-long survey

Employment stabilises

Fastest rise in input costs since October 2018

Data were collected 12-24 March 2021.

The Indonesia manufacturing PMI posted its highest reading in a decade of data collection during March amid sharp accelerations in rates of growth in output and new orders. There were signs of emerging pressure on capacity, which led firms to stabilise employment.

Meanwhile, higher raw material costs and supply-chain disruption led to a further acceleration in the pace of input price inflation, but firms raised their own selling prices at a softer pace.

The IHS Markit Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) posted 53.2 in March, up from 50.9 in February and the highest reading since the survey began in April 2011. The index signalled a solid improvement in business conditions which outpaced the previous survey peak seen in June and July 2014.

The record improvement in the health of the sector was registered thanks to accelerated growth of new orders and output, both of which increased to the greatest extent in the decade-long survey so far.

Production increased for the fifth month in a row, with panellists generally linking the latest expansion to the rise in new orders.

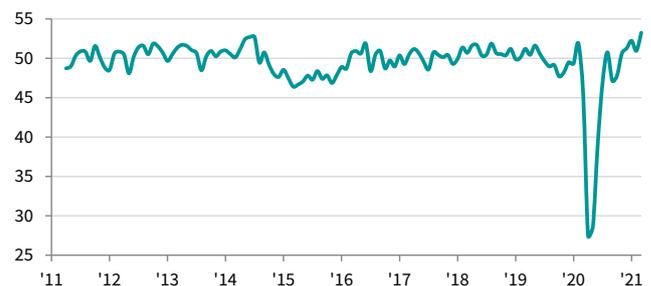
In turn, those firms that secured greater new order volumes often mentioned stronger client demand. The coronavirus disease 2019 (COVID-19) pandemic continued to impact export business, however. New export orders decreased for the sixteenth successive month, albeit at the softest pace since last November.

Firms were increasingly confident that improvements in output would be sustained over the coming year, with business confidence hitting a 50-month high. An end to the pandemic,

continued...

Indonesia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Andrew Harker, Economics Director at IHS Markit, said:

"The Indonesian manufacturing sector ended the first quarter of the year on a high, with firms ramping up production in response to the strongest influx of new orders in the decade-long survey so far. These positive results add to hopes that the sector is on a fast upward trajectory, with the obvious caveat that the COVID-19 pandemic could hit back at any time."

"Signs of pressure on capacity meant that employment stabilised in March, and if trends in workloads remain positive we can expect outright employment growth in the near future."

higher sales and marketing efforts were all projected to support output growth.

The sharp increase in new orders imparted pressure on operating capacity in March. Backlogs of work rose for the first time in 21 months. In response, firms paused job shedding, following 12 successive months of employment reductions.

Rising workloads also encouraged firms to expand their purchasing activity, which they did at a solid pace that was the joint-third fastest in the survey's history.

When purchasing items, manufacturers were faced with a combination of sharply rising input costs and delivery delays. The rate of input cost inflation quickened for the sixth successive month and was the fastest since October 2018. Panellists reported higher raw material prices, sometimes linked to supply shortages.

Shortages of raw materials, shipping delays and poor weather conditions all contributed to a fourteenth consecutive lengthening of suppliers' delivery times, although the latest increase in lead times was the softest since last November.

Firms kept their stocks of purchases broadly unchanged, while the use of inventories to help meet sales meant that stocks of finished goods decreased for the second month running.

Finally, output prices were raised in response to the aforementioned increase in input costs. That said, in contrast to the picture for input prices, charges were increased at a slower pace than in February.

Indonesia Manufacturing PMI Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

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Methodology

The IHS Markit Indonesia Manufacturing PMI™ is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

March 2021 data were collected 12-24 March 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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